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# UNITED NATIONS POPULATION FUND

## REVIEW OF THE IMPLEMENTATION OF THE UNFPA POLICY ON INDIRECT COST RECOVERY

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## I. INTRODUCTION

1. In decision 2005/12, the Executive Board of UNDP and of UNFPA endorsed, on an interim basis, the implementation of standardized cost-recovery rates, consisting of a rate of 5 per cent on expenditures financed by programme countries contributing to their own country programme, and a rate of 7 per cent on all other co-financed expenditures. The decision also confirmed the rate of 5 per cent for third-party procurement expenditures. As requested in decision 2005/12, UNFPA submitted a report, DP/FPA/2007/9, to the annual session 2007 of the Executive Board, in which it reviewed the UNFPA policy on indirect cost recovery.

2. In decision 2007/15, the Executive Board reaffirmed its endorsement of the current recovery rate structure, and requested UNFPA to provide an update at its second regular session 2009. As part of her opening statement to the second regular session 2009, the Executive Director updated the Board on the UNFPA policy on indirect cost recovery. The present document responds to decision 2009/26, in which the Board requested, inter alia, that UNFPA provide a report, at the first regular session 2010, on actual cost recovery for 2007 and 2008, and on the level of variable indirect costs.

## II. BACKGROUND

3. In document JIU/REP/2002/3 on support costs related to extra-budgetary activities in organizations of the United Nations system, the Joint Inspection Unit encouraged the United Nations system to harmonize its approaches to indirect cost recovery. While the Joint Inspection Unit refrained from proposing a unified rate across the United Nations system, it recommended a consistent approach to cost recovery.

4. The High-level Committee on Management is harmonizing and improving cost-recovery principles and methodologies. At its meeting on 28 September 2009, the working group on cost recovery policy reconfirmed the definitions of direct, fixed indirect and variable indirect costs as described in document CEB/2006/HLCM/20, and the principle that variable indirect costs should be recovered from co-financing resources. The latter principle is described in General Assembly resolution 62/208 on the triennial comprehensive policy review of operational activities for development of the United Nations system.

5. These definitions are reproduced below:

(a) *Direct costs* are incurred for and can be traced in full to an organization's activities, projects and programmes in fulfilment of its mandate. Included are costs of project personnel, equipment, project premises, travel and any other input necessary to achieve the results and objectives set out in programmes and projects.

(b) *Fixed indirect costs* are costs incurred by the organization, regardless of the scope and level of its activities, which cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include the top management of an organization, its corporate costs and statutory bodies not related to service provision.

(c) *Variable indirect costs*, usually referred to as programme support costs, are incurred by the organization as a function of and in support of its activities, projects and programmes, and cannot be traced unequivocally to specific activities, project or programmes. These costs typically include service and administrative units, as well as their related system and operating costs.

6. The methodology adopted by UNFPA and endorsed by the Executive Board in 2005 is based on the principle that the cost recovery rate must reimburse UNFPA for the variable indirect costs of carrying out programme activities funded from other resources. This is consistent with the methodology followed by UNDP and UNICEF. The UNFPA methodology is described in detail in document DP/FPA/2005/5.

## III. UPDATE

7. UNFPA has consistently followed, with few exceptions, the simple and transparent two-tiered rate structure endorsed by the Executive Board in 2005, which consists of 5 per cent for programme countries contributing to their own country programme, and 7 per cent for other donors. The actual costs recovered for the years 2007 and 2008 totalled $25.9 million, for an average cost recovery rate of 6.2 per cent.

8. Using the same indirect cost-recovery model as elaborated in DP/FPA/2005/5 on the recovery of indirect costs for co-financing, and in DP/FPA/2007/9 on the review of the UNFPA policy on indirect cost recovery, UNFPA calculated the variable indirect costs related to programme activities funded from other resources for 2007 and 2008. Using the same methodology used for the 2007 update, UNFPA examined all biennial support budget expenditures and divided them into two categories: fixed indirect and variable indirect. For example, the Office of the Executive Director, the Division for Oversight Services and the Ethics Office operate irrespectively of the level of co-financing; therefore, all of their biennial support budget expenditures are considered fixed. The expenditures of the remaining UNFPA divisions are a mixture of fixed costs and variable costs. According to the approved methodology, variable costs are apportioned according to the relative share of other resources to total resources.

9. The biennial support budget cost structure is largely unchanged from the previous update. As expected, variable indirect costs have increased as programme expenditure has increased. However, fixed costs have also increased slightly, when compared to 2005 and 2006, due to the new UNFPA organizational structure.

10. Applying the model described in DP/FPA/2005/5, the total variable indirect costs for 2007 were $16.2 million, or 6.8 per cent of programme expenditures from other resources. For 2008, the total variable indirect costs were $14.5 million, or 7.4 per cent of programme expenditures from other resources. The combined rate for both years was 7.1 per cent.

11. Therefore, the total costs recovered for the years 2007 and 2008 (6.2 per cent) is slightly lower than the actual indirect variable costs (7.1 per cent).

## IV. CONCLUSION

12. In summary:

(a) The indirect cost recovery rates are in compliance with the cost recovery policy;

(b) The actual indirect variable cost for the years 2007 and 2008, as a percentage of programme expenditure, was 7.1 per cent.

13. As stated in document DP/FP/2007/9, the ability of UNFPA to successfully implement programmes and activities is limited and finite during a biennium. If the level of other resources increases beyond the established threshold, it will be necessary to have a corresponding increase in capacity to implement

projects. UNFPA is restricted, however, in its ability to increase this capacity beyond the limits set by the biennial support budget.

14. UNFPA will continue to engage in the ongoing discussions on cost recovery taking place in the High-Level Committee on Management and will consider further improvements in the present policy for the 2012-2013 biennial support budget.

## V. RECOMMENDATION

**15. The Executive Board may wish to take note of the present report (DP/FPA/2010/16).**